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23 JULY 1979

(FOUO 1³/79)

1 OF 1

JPRS L/8582

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23 July 1979

China Report

ECONOMIC AFFAIRS

(FOUO 1/79)



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23 July 1979

CHINA REPORT ECONOMIC AFFAIRS

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GENERAL ECONOMIC INFORMATION

JAPANESE NEWSPAPER REPORTS ON CHINA'S ECONOMY

Tokyo NIHON KEIZAI SHIMBUN in Japanese 5 Feb 79 p 14 HK

[Report by Sueo Sekiguchi, chief research fellow of the Japan Economic Research Center: "China's Strong Economic Growth Power"]

[Text] In view of the rapid opening up of China's foreign policy and the development of economic relations between Japan and China, the Japan Economic Research Center started a project on "Research on the Economic Relations Between Japan and China" in October 1977 (under the direction of Sueo Sekiguchi, chief research fellow of the Japan Economic Research Center). Members of the project visited China in December last year and reviewed their findings. The following is a resume of the results.

A China boom began in 1978 in Western industrial countries including Japan, and China's economic policy toward the West became unexpectedly active in the summer of that year. Visitors to China at the end of last year said that the Chinese authorities were talking to them about economic matters three times more than they did in the summer. It seems that the policy of the leaders has penetrated deep among the people who are confidently and actively pushing the "four modernizations" ahead.

Naturally a visit to China by us nonexperts who have been engaged in China watching for only about a year and a half cannot reveal much. But on the other hand, research by experts does not necessarily reveal the secrets of China's economic developments. We must look at the situation in the light of both our own concept and their idea of "self-reliance" and "walking on two legs."

We must not forget that political education and moral inducements play an important role in China. However, there is a limit to this. Many an earthquake in their policies in the past was not unconnected with this. Some disputes over political leadership were centered around clashes over the value of moral and material inducements.

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We often use the term "identical race and identical language" when we talk about the closeness of Japan and China. But this is oversimplifying things. It is also necessary to examine the theory that because China sells its resources and Japan sells its industrial products, the economies of the two countries therefore complement each other. In the following, we nonexperts will discuss China's economic developments and questions concerning the economic relations between Japan and China from our viewpoint.

In the end we will deal with ways in which Japan can contribute through cooperation, bearing in mind the special relations between the two countries.

China's Present Economic Situation

It is difficult to summarize the economic situation of a country with a territory as vast and varied as China. Here we will make an attempt to outline China's economy from five aspects, which we feel would be useful for the study of the economic relations between Japan and China.

Latent Growth Power--There are various ways to estimate China's GNP. Table 1 is an estimate by the World Bank for international comparison. According to this table, China's per capita GNP in 1975 reached about \$400. Since the population growth from 1970 to 1975 was 1.7 percent annually, the annual per capita GNP growth is therefore estimated at 5.3 percent. This growth rate is low when compared with the ROK but fairly high when compared with the United States, the Soviet Union or Japan.

1. The People's Enthusiasm for Work

Since the beginning of the 1970's, China's economy has been growing at a rate second only to the rapidly developing countries (the ROK, Mexico, Brazil and the like). But will this continue? We believe it will. China has gone through the Great Leap Forward (1958 to 1960), the Cultural Revolution (1966 to 1969) and then the period of chaos under the "gang of four" (1976) during which China's economy remained stagnant. But now the leadership has established itself firmly. If they continue with their current policy of industrialization, China's growth power is believed to be strong.

This judgment is based first of all on the universality of primary and secondary education, the high quality of the labor force and the vigorous enthusiasm of the peasants for their work. In a country such as China, which has a population of 900 million, its future is determined by the mobilization and development of human resources rather than the possession of natural resources as is widely believed. But there are still questions concerning the attitude of the people toward saving and investment and the power of technical innovations, which will be discussed in the following.

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Table 1. An International Comparison of China's Economy

	Year	Unit	Japan	China	USSR	U.S.	India	ROK
1. Population	1975	Million	112	823	254	214	608	35
2. Increase of population	1970-1975	Percent	1.3	1.7	0.9	0.8	2.1	1.8
3. GNP	1975	US\$/bil.	496	315	649	1,520	86	20
4. Per capita GNP	1975	US\$	4,450	380	2,550	7,120	140	560
5. GNP growth rate	1960-1975	Percent	7.7	5.2	3.8	2.5	1.3	7.1
6. GNP growth rate	1970-1975	Percent	4.0	5.3	3.1	1.6	0.5	8.2
7. Export	1977	US\$/bil.	80.5	7.91	45.2	119.0	5.3	10.1
8. Industrial production index	1977	1970=100	126	1592	160	130	137	438
9. Cement production	1977	1000 tons	6,095	4,1082	10,579	5,611	1,600	1,184
10. Raw steel production	1977	per month 1000 tons	8,533	1,9172	12,250	9,441	818	241
11. Nitrogen fertilizer production	1977	per month 1000 tons	1,149	3,827	8,531	9,790 ³	1,857	510
12. Chemical fiber production ⁴	1976	per annum 1000 tons	1,564	177	1,017	3,130	188	324

Remarks: 1. "Prospects of China's Economy in the New E", March 1978 by Japan-China Economic Association

2. "China's Economic Indexes, 1976," March 1978 by JETRO

3. UN Statistical Yearbook

4. "Chemical Fiber Handbook," 1978 by Japan Chemical Fiber Association; rate of increase is annual average

Source: Nos 1 to 6, World Atlas 1977 by the World Bank unless otherwise specified; Nos 7 to 12, UN-MBS June 1978 unless otherwise specified.

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2. Self-Sufficiency in Grains

Nutrition, Food, Living Standard--China's commodity prices have been stable for long periods of time, but it is wrong to make income comparisons by assuming that its GNP deflator moves in the same way as in Western industrial countries. Besides, in connection with the official foreign exchange rate, when the consumption basket of developing countries is used as the basis, the estimated purchasing power of the U.S. dollar becomes too high. According to L. G. (Reynolds), the value of the dollar is inflated five times when the consumption basket of upper class Shanghai workers around 1974 is used as the basis of estimation.

China is still definitely poor. Its income is on about the same level as Japan's during the second half of the 1950's. But since the price of daily necessities such as food is cheap, its standard of nutrition is up to about 80 percent of that of the ROK's (based on calories, 1972 to 1974). Housing and durable consumer goods are still in short supply, but minimum needs in clothing and food are satisfied.

As shown in Table 2, China's agricultural productivity is about half of Japan's (based on the weight of grains) as a result of insufficient utilization of machinery and fertilizer; but it is believed that a level of self-sufficiency in grains has been attained (This is a controversial issue; for details please refer to our report). Consequently, the possibility of industrialization being retarded by the burden of food imports is small.

Table 2. China's Agricultural Labor Productivity

	Labor productivity in grains kg/agr population			Number of tractors		Nitrogen fertilizer		Other fertilizers	
	1965	1975	75/65	1965	1974	1965	1974	1965	1974
Japan	1456	2204	151	579	1147	134.2	123.0	104.5	128.5
China	894	1075	120	1.2	7	12.8	34.1	0.4	3.1
			(1964)	[as published]					
India	536	801	149	--	--	3.3	10.7	0.6	2.1
ROK	1187	1398	118	0.4	27	89.2	184.8	17.8	64.2

Remarks: Chinese tractors include garden tractors. The unit is number of tractors per 1,000 hectares. The unit for fertilizers is kilograms per hectare.

Source: Calculated by this center according to various estimates.

The need to import agricultural machinery, construction machinery and fertilizer is great as is the need for housing, electric washing machines and electric refrigerators. These items are essential for improving the standard of living as well as for easing the employment situation.

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3. Revision of the Policy of Dispersion of Industries

The Course of Industrialization--With the exception of the 1950's, China's industrialization has been different from that of the Soviet Union, which advocates centralization and priority for heavy industry. China has been following the policy of dispersing its industries in the provinces and maintaining a balance between agriculture and industry. Even within the industry itself, the production of consumer goods and producer goods has been developed evenly. This is perhaps a necessary choice because of its national defense needs, its foreign policy of self-sufficiency or its deficiency in domestic transport. However, to satisfy the people's desire to improve their living standards and realize the "four modernizations" under the circumstances of the Sino-Soviet confrontation, it is essential to improve productivity and centralize the production of basic goods to a certain extent. Thus modernization and employment of large-scale industrial equipment are being stepped up in "key state enterprises." The Baoshan iron and steel complex in Shanghai is one such example.

Visits to factories and interviews conducted during our trip to China in December 1978 revealed that surplus capabilities of departments of consumer goods production and factories using conventional techniques were being transferred to new departments instead of allowing the original departments and factories to expand. The policy of dispersion of industries may remain basically unchanged in view of the vastness of its territory, its deficiency in domestic transport and the dispersion of its population, but it is believed that the policy on the production of basic goods is being revised. In fact this is perhaps a rational course.

4. The Need To Introduce Foreign Capital

Accumulation of Capital--Accumulation of capital is the key to economic growth. Professor Ishikawa formerly had a system for making estimates of China's capital accumulation, but there is as yet no accepted formula for long-term estimates. We have attempted to find the balance of investments of savings in agricultural and nonagricultural departments under a set of presumptions in the rate of labor distribution, rate of savings and marginal capital coefficient. Although this is only a rough estimate, we found that during the periods of chaos (1959 to 1961; 1967 and 1976) capital was wasted even in agricultural departments. However, during other periods, savings flowed from agricultural to nonagricultural departments. To get closer to the core, it may be necessary to find evidence of the flow of surpluses from light to heavy industry. But this is only a recent phenomenon.

Table 3 is a comparison of the results of our estimates with the rate of investment in other Asian countries. China's rate of accumulation is lower than those of Japan and the ROK, but it shows that when there was no chaos, the rates were over 20 percent. During the 1960's when there was no foreign investment, the growth rate was 7 percent when the

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marginal capital coefficient was 3.0, and 5 percent when the marginal capital coefficient was 4.0 (using the simple [Harod-Domer] model).

Table 3. International Comparison on Investment Rate
(5-year average investment rate; percent)

	<u>Japan</u>	<u>China</u>	<u>India</u>	<u>ROK</u>
1955-59	31.0	30.2	--	12.7
1960-64	36.9	11.0	16.8	14.7
1965-69	35.8	22.9	18.0	23.4
1970-74	38.1	27.5	18.5	26.1
1975-76	32.3	13.5	--	25.8

Remarks: Investment rate is defined as amount of investment divided by GNP.

Source: Figures for China are estimates by this center. Others are according to the UN's "Asia-Pacific Statistical Year."

In the past, China's marginal capital coefficient was believed to be near 4. Capital efficiency was lowered by the increase of marginally useful equipment, chaotic policies, political struggles and delays in the distribution of raw materials. Thus, to accelerate its industrialization, China must either lower its capital coefficient, increase its savings rate or borrow foreign capital.

5. Increase of Savings Rate

Prospects for the Current 10-Year Plan--The Chinese Government published a plan to expand its agriculture by 4 to 5 percent and its industry by 10 to 11 percent annually before 1985 which means an annual GNP growth of more than 8 percent. In this connection, R. F. (Denbaaga) and (Fuaasenfuesuto) estimated the annual growth rate at a "pessimistic" 6.5 percent in their latest report to the U.S. joint congressional committee.

On the basis of the above arithmetic, if the savings rate is raised by 25 percent and the marginal capital coefficient lowered to 3.5 (3.0), the growth rate will become 7.1 (8.3) percent. Naturally if China borrows foreign capital as it is doing now, it will be able to raise its growth rate correspondingly. On the basis of the GNP indicated, a percent of savings rate is equivalent to above \$3 billion. When the capital coefficient is 3.5, an increase of savings rate by 2 percent will raise the growth rate by about 0.6 percent.

China is confronted with a shortage of domestic savings and of capital in its attempt to accelerate its industrialization. Although the present rate of family savings is still high, can the savings rate be raised? At least the enterprises must increase their efficiency and profits. To

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achieve this aim China is attempting to learn Western production techniques and enterprise management. As long as the introduction of foreign capital and the import of consumer goods are not increased, consignment processing and compensation trade will mean savings increases. Meanwhile, promotion of tourism is also closely associated with domestic savings and foreign exchange increases. Acceptance of direct foreign investment is another means toward technological innovation and introduction of capital.

However, delays in the distribution of goods according to the schedule of state plans will hamper the increase of overall efficiency even if technological innovation is achieved within individual enterprises. This is perhaps China's Achilles' heel in its economic development.

Trade Relations Between Japan and China

The China boom also caught on in Japan last year. But in Japan the situation is different from that in the United States. Here the economic factor is stronger than the political one. In fact we can say the factor of selling to China is the strongest. China is a highly attractive market for Western enterprises which are plagued by depression. However, if Chinese products cannot be sold abroad, problems of accrued debt will soon surface in China. In the following we shall discuss the trade relations between Japan and China, limiting ourselves only to the aspects of trade and investment.

1. Import of Light Industrial Products

Imbalance of Japan-China Trade--In Table 4 it is estimated that in 1977 Japan's share in China's total import volume was 30 percent; but China's share in Japan's was only 2.2 percent. Since Japan imports little from China, Japan takes in only about 20 percent of China's exports.

When the degree of reliance on trade with Japan is high, China becomes subject to fluctuations in the Japanese economy. Consequently China is probably trying to avoid concentrating on a small number of trading partners to minimize the risk. In this connection, China's foreign exchange policy is to keep the official rate close to the arbitrated rate. But the RMB is strongly affected by the fluctuation of the U.S. dollar.

China's reliance on imports was 2.3 percent in 1975, but increase in the import of industrial plants pushed the rate up in 1978. If the exchange rate is not lowered, China will have to finance its increased imports by exports and borrowing of foreign exchange. China has a large favorable balance of trade with Hong Kong (ENTREPOT trade included) and there is no need to balance it. But what can Japan import from China? One might think it is only a question of balancing the figures; however, it is not that simple. Indeed we can import some industrial raw materials in addition to oil, but we must also import some general light industrial products such as textiles in addition to marine products which we are currently

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preparing to do. It is essential to eliminate current Japanese restrictions on textile imports and make it easier for Chinese and Southeast Asian exports of light industrial products. This will bring about an expansion of diversified trade.

Table 4A. Indexes Related to Japan-China Economic Relations: Japan
(\$/mil; percent)

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1977</u>
1. Total imports	8,169	18,881	57,863	70,809
2. Imports from China	225	254	1,531	1,547
3. No 2 divided by No 1 multiplied by 100 percent	2.8	1.3	2.6	2.2
4. Total exports	8,452	19,318	55,753	80,495
5. Exports to China	245	569	2,259	1,939
6. No 5 divided by No 4 multiplied by 100 percent	2.9	2.9	4.1	2.4
7. Rate of reliance on imports in relation to GNP (market price)	7.8	8.0	11.8	10.2
8. Value of principal imports from China				
I. Crude oil	0	0	740	655
II. Textiles	2	26	199	184
III. Raw silk	0	0	44	72
IV. Fish	18	23	67	68
V. Chemicals	6	23	40	48
VI. Soybeans	45	36	73	36
VII. Nonmetal ores	--	19	27	34

Table 4B. Indexes Related to Japan-China Economic Relations: China
(\$/mil; percent)

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1977</u>
1. Total imports	1,845	2,240	7,360	6,418
2. Imports from Japan	245	596	1,984	1,939
3. No 2 divided by No 1 multiplied by 100 percent	13.3	25.4	27.0	30.2
4. Total exports	2,035	2,050	7,025	7,851
5. Exports to Japan	225	254	1,305	1,547
6. No 5 divided by No 4 multiplied by 100 percent	11.1	12.4	18.6	19.7
7. Rate of reliance on imports in relation to GNP (market price)	1.1	1.0	2.3	--
8. Value of principal imports from Japan				
I. Metals	49	276	890	1,106
(iron, steel)	(46)	(237)	(795)	(1,028)

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Table 4B (Continued)

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1977</u>
II. Chemicals	93	138	453	343
(chemical fertilizer)	(70)	(88)	(317)	(149)
III. Machinery	68	119	696	217
(transport mach.)	(3)	(39)	(267)	(109)
IV. Textiles	24	21	123	198

Source: Statistics from "Trade White Paper." Annual average rate is used for U.S. dollar conversion. "Foreign Trade" of Japan Customs Duty Association. "Statistics on China's Economy," 1977 of Japan-China Economic Association. "China: A Reassessment of the Economy," 1975 and "People's Republic of China: International Trade Handbook," 1975 of the U.S. joint congressional committee.

2. Abrupt Change in Foreign Policy

Investment and Technical Cooperation--China's adoption of a flexible foreign policy to facilitate technological innovation can be seen from its attempts toward consignment processing, compensation trade and the drafting of a patent law. In addition, the Chinese Government has recently been considering the acceptance of direct foreign investment with the condition of being able to buy the foreign investment and nationalize the enterprise after about 10 years.

As a matter of fact, Chinese officials in the investigation departments of the policy-making authorities have shown a very strong interest in investment agreements under the condition of nationalizations. But it seems they are still unable to evaluate even the merits of consignment processing, which is one stage before investment agreement. Consequently, this author believes the changes have been too abrupt. Japan's rate of domestic savings tends to be too high and we have also developed various technologies suitable to Chinese conditions. Furthermore, the Chinese system of enterprise and personnel management is far closer to Japan's than to that adopted in Europe or the United States. Therefore it is easy for Japan to cooperate with China in areas such as providing loans or offering technological know-how. In the meantime, the cost for personnel exchanges is also relatively lower.

3. Establishment of a Japan-China Cooperation Fund

Business should be carried out at the businessmen's own risk. The government should limit itself to beating the Western countries in reducing tension in the COCOM (Coordinating Committee for Export Control), offering preferential duties and easing conditions for loans to China.

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If the Japanese Government is to consider the special relationship between Japan and China, it should establish a cooperation fund as a form of war reparation to finance the exchange of students and technicians. We wish to advocate this Japan-China cooperation fund.

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GENERAL ECONOMIC INFORMATION

GOVERNMENT SEEKING OLDER TYPES OF MACHINERY

Tokyo NIHON KEIZAI SHIMBUN in Japanese 11 May 79 Morning Edition p 8 OW

[Text] With regard to China's plant imports from Japan, a leading government official disclosed on 10 May that "China does not necessarily seek to buy up-to-date facilities, but rather hopes to introduce plants and machinery produced in the early 1970's." This desire was expressed by Chinese Vice Premier Kang Shien (who is also minister of the State Economic Commission) to patent office director Kumaya when the latter visited China in April this year. Commenting on this new Chinese policy, the government official said: "This new move seems to be part of China's efforts to correct its overly ambitious modernization plans. I believe that it represents a policy change in China's economic construction program and reflects China's desire to be more practical in its planning. China has thus far persistently sought to obtain the most up-to-date technology and nothing but ultramodern equipment in its purchase dealings with Japan. The Baoshan Iron Plant most vividly reflects this persistent Chinese effort: the iron plant is using a computerized system in its operations. However, successive imports of ultramodern equipment in carrying out its plant construction projects have resulted in a shortage of funds and technicians, and an inability to cope with the inflow of up-to-date facilities. This is why China has now begun to review its modernization plans and frozen its plant import contracts with foreign countries. About 30 contracts--valued at some 580 billion yen--involve Japanese firms.

According to the government official, Vice Premier Kang--the highest official in charge of China's modernization program--told patent office director Kumaya: "From now on China will not necessarily stick to its past practice of seeking only to introduce ultramodern machinery and plants. We now feel that China's reality requires us to buy facilities which were produced in the late 1960's or the early 1970's."

This is the first time a Chinese leader has expressed China's interests in purchasing "old types of machinery." By purchasing old types of machinery, and facilities China will be relieved from the need to turn out skilled technicians in a hurry, while resolving its problem of lack of funds.

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GENERAL ECONOMIC INFORMATION

BRIEFS

MAY REDUCE STEEL PURCHASES--China may reduce its purchases from Japan of rolled carbon steel by 20 percent to some 2 million metric tons for shipment in the latter half of the current year, steel industry sources said Monday. China for a time replaced the U.S. as the best foreign customer for Japanese steel, buying 5.62 million tons for shipment in 1978, and 2.5 million tons in the first half of 1979. The sources attributed the expected cut in purchases to: --China's announcement of a slowdown in its ambitious modernization program and of its stress on steel. --China's lack of funds to pay for imports. --Growth in China's steel output in 1978 to 31 million metric tons in terms of crude steel. According to the sources, a mission from the China National Metals and Minerals Import-Export Corporation is likely to visit Tokyo around the middle of this month for negotiations with major steelmakers on the price, volume and other terms of rolled steel for shipment in the latter half of the year. [Text] [Tokyo THE DAILY YOMIURI in English 9 May 79 p 4 OW]

SHIRT PRODUCTION--Itoman & Company, Ltd, has reached agreement with the Chinese National Textile Import and Export Corporation to build a factory in Shanghai to produce dress shirts for export. The factory will process materials shipped from Japan on a commission basis. It is expected to go into operation in October, with an annual output set at 800,000. The output figure will ultimately double. [Tokyo ASAHI SHIMBUN in Japanese 16 May 79 Morning Edition p 8 OW]

AUTOMOBILE DELEGATION--A 22-member delegation of China's automobile industry led by Rao Fu, vice minister of the First Ministry of Machine Building, arrived in Japan on 9 May to inspect Japan's automobile industry. While in Japan until 15 May, the delegation will visit Isuzu Motors' Kawasaki and Fujizawa plants, Nissan Motors' Zama plant, and a plant operated by Toyota Motor Company. [Text] [Tokyo NIHON KEIZAI SHIMBUN in Japanese 10 May 79 Morning Edition p 7 OW]

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JAPANESE ELECTRONICS PLANT APPROVED--The Coordinating Committee for Export Control (COCOM), which oversees exports of strategic goods to communist nations, has granted special approval to a Japanese electronic firm's sale of an integrated circuit (IC) plant to China, sources disclosed Wednesday. This is the first time that the COCOM has authorized the export to China of IC manufacturing facilities. ICs are the most advanced area in electronic technology. The contract for the 10 billion yen plant was signed last August between China and Toshiba Corporation. The plant will be built near Shanghai and produce ICs for use in 900,000 color television sets a year. The COCOM has recently become more flexible about the sale of large computers and other electronic equipment to China, principally because the U.S. regards China as an important potential export market. [Text] [Tokyo ASAHI EVENING NEWS in English 21 Jun 79 p 1 OW]

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FOREIGN TRADE

CANCELLATION OF HUGE PETROCHEMICAL CONTRACTS

Tokyo MAINICHI DAILY NEWS in English 2 Jun 79 p 5

[Text] China, apparently facing payment difficulties, has told Japanese firms that it will have to cancel two multi-million dollar contracts for construction of petrochemical plants in Peking and Nanjing (Nanking), informed sources said Friday.

They said the decision by the China National Technical Import Corporation was conveyed to Toyo Engineering Corporation, which signed the deals in January along with three trading houses--Toko Bussan, C. Itoh & Co, and Mitsui & Co.

This is the first time that China has decided to abrogate plant equipment important contracts with Japanese firms.

In February, China unilaterally told Japanese companies that it would shelve implementation of 22 deals valued at 580 billion yen (\$2.9 billion), including one for construction of a large steel mill at Paoshan near Shanghai. Peking cited a review of its economic development plans as the reason for the action.

The Chinese notice to annul the two contracts came as renegotiations are going on in Peking on some of the 22 suspended plant export deals.

The sources said that Japanese firms were shocked at the move as it came on the heels of a remark Wednesday by Chinese Vice Premier Deng Xiaoping to a Japanese parliamentary delegation in Peking that China wants to resolve the question of shelved contracts as quickly as possible.

According to the sources, the two contracts which China wants to abrogate involve two ethylene plants, each with an annual production capacity of 300,000 tons, to be built in Peking and Manjin.

China signed another contract for two more ethylene plants of the same capacity, to be built near the Shenli oilfield.

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The total contract value of the four plants was put at 102 billion yen (\$510 million).

The sources said China gave no specific reasons for its cancellation decision.

The sources cited an insufficient supply of crude oil and naphtha, the raw material of ethylene, a still inadequate infrastructure such as power supply units and a delay in allocation of construction funds due to the recent review of China's modernization plans as possible factors behind the decision.

Toyo Engineering Corporation, the main contractor, has made known that it will not agree to the proposed cancellation, the sources said.

They said the company is expected to send Vice President Masao Sakurai to Peking early next week to discuss the matter with the Chinese.

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FOREIGN TRADE

'ASAHI': PRC ASKS JAPAN TO TAKE RISK IN BOHAI OIL DEVELOPMENT

Tokyo ASAHI EVENING NEWS in English 29 May 79 p 1 OW

[Text] China has asked Japan to bear the risk in prospecting in the proposed joint development of offshore oil in South Bohai (Pohai) bay, according to a source Monday.

Negotiations on the projects were suddenly suspended in mid-February at the Chinese request, but the source disclosed that Beijing has asked the Japan National Oil Corp. (JNOC) to resume the talks shortly.

The JNOC is expected to accept the Chinese request and dispatch a negotiating team to China next month. The JNOC and the Ministry of International Trade and Industry want to reach agreement with China as soon as possible and secure a stable source of supply for the nation because of the worsening global supply situation.

In the talks before mid-February, the two nation's agreed that (1) Japan would undertake the whole process from prospecting to development and even if no oil was found, Japan would not bear the loss--so-called no-risk basis; (2) The total project cost would be fixed at around 400 yen billion; and (3) Japan would take about 2,000,000 tons of crude a year.

However, the source said China has presented new conditions: (1) Japan would make a loan of \$200 million and if China struck oil, the loan would be paid back in crude oil to Japan, but if China failed to find oil, Japan would not ask for the repayment of the loan--so-called risk basis; (2) If China succeeded in finding oil, the volume of oil Japan would take would be increased; (3) The non-risk basis would be adopted in the stage of development; (4) The Japanese loan would be denominated in dollars, instead of yen as proposed by the JNOC, and the interest rate should be as low as possible; and (5) China should get contract terms more favorable than international standards for the entire project.

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FOREIGN TRADE

BRIEFS

BEIJING HOSPITAL PROJECT--Japanese sources disclosed on 9 June plans for China's largest general hospital to be completed in Beijing in 1981 as a Japan-China cooperation project. The Chinese Ministry of Public Health and Kanematsu-Gosho, Japan's representative, recently agreed in Beijing to set up a preparatory committee to discuss construction of the hospital which will be equipped with approximately 1,000 beds and up-to-date facilities, and formulate plans regarding designs, equipment and costs. Further talks on cooperation in the technical and funding areas are expected to get underway during the forthcoming visits to China of Takemi, Chairman of the Japan Medical Association, and Hashimoto, Minister of Health and Welfare. The proposed site for the hospital is an 260,000-square meter-area attached to Beijing Central Medical College. [Tokyo NIHON KEIZAI SHINBUN in Japanese 10 Jun 79 morning edition p 1 OW]

BANKNOTE INK FROM JAPAN--The People's Bank of China has recently asked Dainippon Ink and Chemicals to provide it with a production technique for banknote printing ink and with related equipment. According to the company, an official of the bank visited Japan this February to inspect the company's Tokyo plant. The company recently also received a 200-million yen order from the China Council for Promotion of International Trade for three offset presses and their installation by March of next year. It is speculated that China is trying to improve its advertising publication program with this order. [Tokyo NIHON KEIZAI SHINBUN in Japanese 23 Jun 79 morning edition p 6 OW]

JAPAN STEELMILL INNOVATION DEAL--Nisshin Steel Co. will probably initial an agreement with China National Technical Import Corp. in June to help replace the existing equipment at Taiyuan Steel Works in Shanxi Province with modern facilities, Sanwa Bank, Ltd., said 11 May. Nisshin Steel is a member of the Sanwa Bank Group. The bank said the projected improvement in facilities would require an estimated 6 billion yen, and a syndicate of banks, led by Sanwa, would extend an easy-to-pay loan to China to help finance the project. According to the bank, a 15-member Chinese mission is coming later in the month for final negotiations. [Text] [Tokyo MAINICHI DAILY NEWS in English 12 May 79 p 5 OW]

SWELLFISH IMPORT TO JAPAN--China will begin exporting swellfish to Japan from next autumn and the export will reach a 5-million-ton level in several years, according to Shimonoseki City officials who visited China from 15 to 22 March. Although swellfish is labeled "poison fish" and its fishing and sales banned in China, the Japanese officials talked PRC officials into the deal. A memorandum they exchanged with the Tianjin Municipal Foreign Trade Bureau indicates that China will begin trial fishing in April and the first trial shipment is expected to arrive in Shimonoseki in June or July. [Tokyo YOMIURI SHINBUN in Japanese 23 Mar 79 Morning Edition p 8 OW]

COAL AID TO PRC--The Japan Coal Federation plans to send a delegation headed by President Shingo Ariyoshi to Beijing in mid-April to negotiate a coal mining development plan in Yanzhou, Shandong Province, with the PRC Ministry of Coal Industry. The visit will be made in response to the Chinese offer to jointly develop coal in the Yanzhou area with Japan. Coal produced there will be used in powerplants. The delegation will ask for Chinese cooperation in boring and other predevelopment surveys. It will be accompanied by officials of Japan Export-Import Bank and city banks to conduct negotiations on financing and settlement problems simultaneously. [Tokyo NIHON KEIZAI SHINBUN in Japanese 10 Apr 79 Morning Edition p 7 OW]

PRC OIL IMPORT CONTRACT--Maruzen Oil Company has signed a 4-year contract with China to import 100,000 tons of grade-A crude from China annually. This [is] the first long-term oil import contract that a Japanese firm has ever signed with China. The contract will bring the percentage of Chinese oil in Maruzen's total grade-A crude oil imports up to nearly 20 percent. This crude oil is used in engines of small fishing boats. [Tokyo YOMIURI SHINBUN in Japanese 7 Apr 79 Morning Edition p 9 OW]

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TRANSPORTATION

JAPAN-CHINA CIVIL AVIATION TALKS TO BEGIN 22 MAY IN BEIJING

Tokyo ASAHI EVENING NEWS in English 15 May 79 p 3 OW

[Text] Japan and China will negotiate a civil aviation agreement in Beijing for three days from May 22, government sources disclosed on Sunday.

Major issues to be taken up during the negotiations will be a proposed increase in the number of flights between the two countries and the possibility of changing both countries right to fly beyond designated places.

China proposed last year to increase the number of flights the two nations operate between them from the present six a week to seven. China is expected to present this proposal again at the forthcoming negotiations. Sources say the two countries will probably agree to add an extra flight a week and they could be operating as early as this fall.

At the Beijing negotiating table, Japan is to seek China's approval for allowing the Japan Air Lines to operate flights beyond Guangzhou (Kwangchow) in addition to the present two Chinese cities of Beijing and Shanghai.

Japan will also ask China to permit the Japanese national flag carrier to fly from Japan to Iran via the Karakorum Mountains in western China and on to Pakistan. Flights over the route, the shortest one linking Japan and the Middle East oil producing country, are currently used by the national flag carriers of only three countries--China, Iran and Pakistan.

Economic ties between Japan and Iran have grown closer than before and analysts predict more Japanese will want to fly over the route, which is the same as the ancient silk road. Consequently, Japan is eager to acquire the right to use it.

China is expected to ask Japan to expand its right to fly beyond Tokyo so that it can land in more than two cities in the United States. Under the present Sino-Japanese agreement on civil aviation, China is given the right to fly to only one American city via Tokyo. China is believed to have made this an issue at similar negotiations it has begun with the United States through Commerce Secretary Juanita Kreps.

China is also likely to seek Japan's approval for its operations to Fukuoka in connection with Japan's demand for the right to fly to Guangzhou.

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